JOHNSON CONTROLS INC
Form 10-Q/A
December 22, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q/A
(Amendment No. 1)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 1-5097
JOHNSON CONTROLS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin	39-0380010
(State of Incorporation)	(I.R.S. Employer Identification No.)

5757 North Green Bay Avenue, P.O. Box 591, Milwaukee, WI 53201
(Address of principal executive office)
Registrant s telephone number, including area code: (414) 524-1200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes þ No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2005
Common Stock $.04 1/6	Par Value 192,541,000

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EXPLANATORY NOTE

This Form 10-Q/A is being filed to amend and restate the financial statements and certain disclosure items related to the deconsolidation of a North American joint venture in response to comments raised by the Staff of the Securities and Exchange Commission and to provide certain disclosure items related to guarantor financial information in the Form 10-Q for the three and nine month periods ended June 30, 2005 (the 2005 Third Quarter Form 10-Q), which was originally filed with the Securities and Exchange Commission on August 9, 2005.

Revising the financial statements also requires Johnson Controls, Inc. (the Company) to restate certain information that is disclosed in the notes to the Consolidated Financial Statements, primarily Note 2 Inventories, Note 5 Research and Development, Note 8 Goodwill and Other Intangible Assets, Note 11 Segment Information and Note 12 Income Taxes. In addition, the Company has added Note 15 Deconsolidation of a Joint Venture (Restated) and Note 16 Guarantor Financial Statements (Restated). Management s Discussion and Analysis of Financial Condition and Results of Operations was also amended to reflect the revised financial statements.

The Company has determined that a control deficiency related to the Company s misapplication of SFAS 94, Consolidation of All Majority-Owned Subsidiaries giving rise to the restatement constituted a material weakness in our internal control over financial reporting. The Company has also determined that a control deficiency over the Company s identification and reporting of the required guarantor subsidiary financial statement disclosures in the Company s financial statements as required by Rule 3-10 of Regulation S-X constituted a material weakness in our internal control over financial reporting. The Company rescinded all intercompany upstream guarantees and replaced them with alternative intercompany arrangements in November 2005. See Item 4. Controls and Procedures in Part I of this Form 10-Q/A for additional information.

The restatement related to the deconsolidation of the North American joint venture results in changes to certain financial statement line items as reported in the Consolidated Financial Statements. Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company s net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. Neither restatement impacts previously reported income from continuing operations, net income or earnings per share.

This amendment presents the 2005 Third Quarter Form 10-Q, as amended, in its entirety, but does not modify or update the disclosure in the 2005 Third Quarter Form 10-Q in any way other than as required to reflect the changes discussed above and does not reflect events occurring after the original filing of the 2005 Third Quarter Form 10-Q on August 9, 2005.

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PART I FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

JOHNSON CONTROLS, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in millions, unaudited)

	June 30, 2005	Restated September 30, 2004	Restated June 30, 2004
ASSETS			
Cash and cash equivalents	$ 385.2	$ 99.2	$ 41.7
Accounts receivable net	4,228.9	3,815.9	3,492.4
Costs and earnings in excess of billings on uncompleted contracts	300.5	271.8	274.5
Inventories	915.0	858.3	817.4
Assets of discontinued operations		579.8	561.2
Other current assets	895.2	725.5	732.6
Current assets	6,724.8	6,350.5	5,919.8
Property, plant and equipment net	3,293.6	3,333.9	3,014.6
Goodwill net	3,669.9	3,566.2	3,135.8
Other intangible assets net	274.1	290.9	259.5
Investments in partially-owned affiliates	419.5	447.6	562.1
Other noncurrent assets	779.4	769.3	786.0
Total assets	$ 15,161.3	$ 14,758.4	$ 13,677.8
LIABILITIES AND SHAREHOLDERS EQUITY			
Short-term debt	$ 392.7	$ 813.3	$ 418.8
Current portion of long-term debt	220.9	226.7	21.7
Accounts payable	3,544.3	3,425.3	3,277.0
Accrued compensation and benefits	747.1	592.4	569.8
Accrued income taxes	27.3	48.6	61.5
Billings in excess of costs and earnings on uncompleted contracts	225.5	197.2	195.3
Liabilities of discontinued operations		228.5	184.7
Other current liabilities	1,124.1	888.8	893.4
Current liabilities	6,281.9	6,420.8	5,622.2
Long-term debt	1,632.1	1,630.6	1,834.7
Postretirement health and other benefits	158.5	164.1	167.4
Minority interests in equity of subsidiaries	142.9	121.5	109.4
Other noncurrent liabilities	1,168.8	1,215.1	1,026.5
Shareholders equity	5,777.1	5,206.3	4,917.6
Total liabilities and shareholders equity	$ 15,161.3	$ 14,758.4	$ 13,677.8

The accompanying notes are an integral part of the financial statements.

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JOHNSON CONTROLS, INC.
CONSOLIDATED STATEMENT OF INCOME
(in millions, except per share data; unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	Restated 2004	Restated 2005	Restated 2004
Net sales				
Products and systems*	$ 6,322.6	$ 5,555.8	$ 18,225.0	$ 16,179.6
Services*	739.5	720.2	2,354.3	2,191.0
	7,062.1	6,276.0	20,579.3	18,370.6
Cost of sales				
Products and systems	5,570.1	4,846.1	16,131.7	14,132.1
Services	591.7	587.5	1,914.5	1,797.0
	6,161.8	5,433.6	18,046.2	15,929.1
Gross profit	900.3	842.4	2,533.1	2,441.5
Selling, general and administrative expenses	532.2	523.1	1,692.8	1,673.1
Restructuring costs			210.0	82.4
Japanese pension gain				(84.4)
Operating income	368.1	319.3	630.3	770.4
Interest income	4.9	3.1	11.7	8.5
Interest expense	(27.3)	(24.4)	(88.3)	(78.2)
Equity income	19.5	25.8	59.2	71.9
Miscellaneous net	(8.5)	(20.9)	(24.5)	(52.2)
Other income (expense)	(11.4)	(16.4)	(41.9)	(50.0)
Income from continuing operations before income taxes and minority interests	356.7	302.9	588.4	720.4
Income tax provision	94.6	82.0	95.5	174.7
Minority interests in net earnings of subsidiaries	7.4	11.6	28.2	33.4
Income from continuing operations	254.7	209.3	464.7	512.3
Income from discontinued operations, net of income taxes		13.0	16.1	32.2
Gain on sale of discontinued operations, net of income taxes			144.8	
Net income	$ 254.7	$ 222.3	$ 625.6	$ 544.5

Earnings available for common shareholders	$ 254.7	$ 222.3	$ 625.6	$ 542.7
Earnings per share from continuing operations				
Basic	$ 1.33	$ 1.10	$ 2.43	$ 2.73
Diluted	$ 1.31	$ 1.08	$ 2.39	$ 2.66
Earnings per share				
Basic	$ 1.33	$ 1.17	$ 3.27	$ 2.90
Diluted	$ 1.31	$ 1.15	$ 3.22	$ 2.83

* Products and systems consist of Seating & Interiors products and systems, Battery Group products and Controls Group installed systems. Services are Controls Group technical and facility management services.

The accompanying notes are an integral part of the financial statements.

JOHNSON CONTROLS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions; unaudited)

	Three Months Ended June 30, Restated		Nine Months Ended June 30, Restated	
	2005	2004	2005	2004
Operating Activities				
Net income	$ 254.7	$ 222.3	$ 625.6	$ 544.5
Gain and income from discontinued operations		(13.0)	(160.9)	(32.2)
Income from continuing operations	254.7	209.3	464.7	512.3
Adjustments to reconcile income from continuing operations to cash provided by operating activities				
Depreciation	145.4	134.6	452.7	405.5
Amortization of intangibles	5.5	4.5	17.0	13.9
Equity in earnings of partially-owned affiliates, net of dividends received	(13.9)	21.9	(41.6)	(3.3)
Minority interests in net earnings of subsidiaries	7.4	11.6	28.2	33.4
Deferred income taxes	84.5	15.7	(13.0)	69.9
Japanese pension settlement gain				(84.4)
Non cash restructuring costs			45.8	6.6
Other	29.8	11.8	24.8	(0.4)
Changes in working capital, excluding acquisitions and divestitures of businesses				
Receivables	(120.2)	(58.5)	(386.2)	(136.4)
Inventories	(61.7)	(40.3)	(59.1)	(24.8)
Other current assets	(11.7)	35.2	(101.4)	13.8
Restructuring reserves	(29.5)	(14.5)	134.7	51.2
Accounts payable and accrued liabilities	11.4	78.8	160.8	(41.1)
Accrued income taxes	49.9	(1.7)	(15.0)	30.0
Billings in excess of costs and earnings on uncompleted contracts	(4.4)	(7.7)	27.1	4.5
Cash provided by operating activities of continuing operations	347.2	400.7	739.5	850.7
Investing Activities				
Capital expenditures	(104.3)	(177.1)	(386.9)	(557.3)
Sale of property, plant and equipment	3.1	3.9	10.7	22.4
Acquisition of business, net of cash acquired	(72.7)		(105.8)	(36.6)
Recoverable customer engineering expenditures	11.1		(0.9)	(43.7)
Proceeds from sale of discontinued operations			687.2	
Changes in long-term investments	(39.6)	(19.0)	(11.5)	(21.7)
Cash (used) provided by investing activities	(202.4)	(192.2)	192.8	(636.9)

Financing Activities				
Increase (decrease) in short-term debt net	20.4	(237.5)	(413.8)	277.9
Increase in long-term debt	2.5	86.8	16.0	203.8
Repayment of long-term debt	(9.0)	(147.4)	(107.3)	(678.0)
Payment of cash dividends	(48.1)	(42.6)	(143.8)	(127.9)
Other	29.7	6.7	59.8	44.7
Cash used by financing activities	(4.5)	(334.0)	(589.1)	(279.5)
Cash (used) provided by discontinued operations		(2.6)	(57.2)	23.5
Increase (decrease) in cash and cash equivalents	$ 140.3	$ (128.1)	$ 286.0	$ (42.2)

The accompanying notes are an integral part of the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Financial Statements

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company s Amended Annual Report on Form 10-K/A for the year ended September 30, 2004. The September 30, 2004 Consolidated Statement of Financial Position is derived from the audited financial statements, adjusted for discontinued operations (See Note 3). The results of operations for the three and nine month periods ended June 30, 2005 are not necessarily indicative of the results which may be expected for the Company s 2005 fiscal year because of seasonal and other factors. Certain prior period amounts have been reclassified to conform to the current period s presentation.

2. Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for most inventories at domestic locations. The cost of other inventories is determined on the first-in, first-out (FIFO) method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. Inventories were comprised of the following:

(in millions)	June 30, 2005	September 30, 2004	June 30, 2004
Raw materials and supplies	$ 466.7	$ 460.9	$ 445.1
Work-in-process	143.6	136.7	116.0
Finished goods	332.9	288.5	283.1
FIFO inventories	943.2	886.1	844.2
LIFO reserve	(28.2)	(27.8)	(26.8)
Inventories	$ 915.0	$ 858.3	$ 817.4

3. Discontinued Operations

In February 2005, the Company completed the sale of its engine electronics business, included in the Seating & Interiors Europe segment, to Valeo for approximately 323 million, or about $427 million. This non-core business was acquired in fiscal 2002 from Sagem SA. The sale of the engine electronics business resulted in a gain of approximately $90 million ($57 million after tax), net of related costs and subject to certain adjustments. As part of the post-closing activities in the third quarter, the Company received a claim from Valeo seeking an adjustment to the above purchase price. The Company is in negotiations with Valeo regarding the claim; however the outcome cannot be determined at this time. To the extent the Company is required to

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make an adjustment, it will be recognized as a charge, net of tax, in discontinued operations.

In March 2005, the Company completed the sale of its Johnson Controls World Services, Inc. subsidiary (World Services), included in the Controls Group segment, to IAP Worldwide Services, Inc. for approximately $260 million. This non-strategic business was acquired in fiscal 1989 from Pan Am Corporation. The sale of World Services resulted in a gain of approximately $144 million ($88 million after tax), net of related costs.

The following summarizes the revenues, expenses and related gain on sale of the discontinued operations:

	Engine Electronics (1)				Johnson Controls World Services, Inc. (2)			
	Three Months Ended June 30,		Nine Months Ended June 30,		Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2005	2004	2005	2004	2005	2004	2005	2004
Net sales		$ 117.2	$ 199.7	$ 317.8		$ 199.5	$ 340.4	$ 554.3
Cost of sales		97.1	172.3	266.5		185.6	318.6	513.6
Gross profit		20.1	27.4	51.3		13.9	21.8	40.7
Selling, general and administrative expenses		9.0	16.8	27.8		3.4	8.1	12.0
Operating income		11.1	10.6	23.5		10.5	13.7	28.7
Miscellaneous net						(0.9)	1.4	0.5
Income before income taxes and minority interests		11.1	10.6	23.5		9.6	15.1	29.2
Provision for income taxes		3.9	3.7	8.3		3.7	5.8	11.4
Minority interests						0.1	0.1	0.8
Net income		$ 7.2	$ 6.9	$ 15.2		$ 5.8	$ 9.2	$ 17.0
Earnings per share from discontinued operations								
Basic		$ 0.04	$ 0.03	$ 0.08		$ 0.03	$ 0.05	$ 0.09
Diluted		$ 0.04	$ 0.03	$ 0.08		$ 0.03	$ 0.05	$ 0.09
Earnings per share from gain on sale of discontinued operations								
Basic			$ 0.30				$ 0.46	
Diluted			$ 0.30				$ 0.45	

(1) Engine Electronics includes revenues and expenses through February 28, 2005, the effective date of the disposition.

(2) World Services includes revenues and expenses through March 30, 2005, the effective date of disposition.

Assets of the engine electronics business as of the disposal date totaled $427 million, which consisted of goodwill ($154 million), accounts receivable ($100 million), property, plant and equipment net ($69 million), other intangible assets net ($59 million) and other miscellaneous assets ($45 million). Liabilities of the engine electronics business as of the disposal date totaled $90 million, which consisted of accounts payable ($82 million) and other miscellaneous liabilities ($8 million).

Assets of World Services as of the disposal date totaled $178 million, which consisted of accounts receivable ($127 million), goodwill ($30 million), property, plant and equipment net ($10 million) and other miscellaneous assets ($11

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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million). Liabilities of World Services as of the disposal date totaled $62 million, which consisted of accounts payable ($40 million) and other miscellaneous liabilities ($22 million).

4. Product Warranties

The Company provides warranties to certain of its customers depending upon the specific product and terms of the customer purchase agreement. Most of the Company s product warranties are customer specific. The Company has been increasingly offering discounts in lieu of warranties resulting in a decline in the overall warranty liability. A typical warranty program requires replacement of defective products within a specified time period from the date of sale. The Company records an estimate for future warranty-related costs based on actual historical return rates. While warranty costs have historically been within calculated estimates, it is possible that future warranty costs could exceed those estimates. The Company s product warranty liability is included in Other current liabilities in the Consolidated Statement of Financial Position.

The changes in the carrying amount of total product warranty liability for the nine month period ended June 30, 2005 were as follows:

(in millions)	
Balance as of September 30, 2004	$ 65.2
Accruals for warranties issued during the period	26.0
Accruals related to pre-existing warranties (including changes in estimates)	(1.3)
Accruals from acquisition	0.8
Settlements made (in cash or in kind) during the period	(33.2)
Currency translation	(1.2)
Balance as of June 30, 2005	$ 56.3

5. Research and Development

Expenditures for research activities relating to product development and improvement are charged against income as incurred and included within Selling, general and administrative expenses. Such expenditures amounted to approximately $216 million and $203 million for the three months ended June 30, 2005 and 2004, respectively. Expenditures of approximately $633 million and $655 million were recorded for the nine months ended June 30, 2005 and 2004, respectively.

A portion of the costs associated with these activities is reimbursed by customers, and totaled approximately $101 million and $69 million for the three months ended June 30, 2005 and 2004, respectively, and approximately $274 million and $222 million for the nine months ended June 30, 2005 and 2004, respectively.

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6. Stock-Based Compensation

Effective October 1, 2002, the Company voluntarily adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation and adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure an amendment of FAS 123. In accordance with SFAS No. 148, the Company has adopted the fair value recognition provisions on a prospective basis and, accordingly, the expense recognized in the three and nine month periods ended June 30, 2005 represents a pro rata portion of the fiscal 2005, 2004 and 2003 grants which are earned over a three-year vesting period.

The following table illustrates the pro forma effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2005	2004	2005	2004
Net income, as reported	$ 254.7	$ 222.3	$ 625.6	$ 544.5
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	5.0	3.7	11.7	11.1
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(5.0)	(5.1)	(12.4)	(15.9)
Pro forma net income	$ 254.7	$ 220.9	$ 624.9	$ 539.7
Earnings per share				
Basic as reported	$ 1.33	$ 1.17	$ 3.27	$ 2.90
Basic pro forma	$ 1.33	$ 1.16	$ 3.27	$ 2.88
Diluted as reported	$ 1.31	$ 1.15	$ 3.22	$ 2.83
Diluted pro forma	$ 1.31	$ 1.15	$ 3.22	$ 2.80

During December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, Share-Based Payment (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants and certain transactions under other Company stock plans. The Company grants options to purchase common stock to some of its employees under various plans at prices equal to the market value of the stock on the dates the options were granted. In April 2005, the Securities and Exchange Commission amended the effective date of SFAS 123R to the first interim period of the first fiscal year beginning after June 15, 2005.

The Company has historically applied a nominal vesting approach for employee stock-based compensation awards with retirement eligible provisions. Under the nominal vesting approach, the Company recognizes compensation cost over the

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vesting period and, if the employee retires before the end of the vesting period, the Company recognizes any remaining unrecognized compensation cost at the date of retirement. Upon adoption of SFAS 123R, the Company will be required to apply a non-substantive vesting period approach whereby expense is accelerated for those employees that receive awards and are eligible to retire prior to the award vesting. Had the Company applied the non-substantive vesting period approach under SFAS 123, an approximate $4 million and $1 million reduction of pre-tax compensation cost would have been realized for the three months ended June 30, 2005 and 2004, respectively. For the nine months ended June 30, 2005 and 2004, additional pre-tax compensation cost of $2 million and $14 million, respectively, would have been recognized.

7. Earnings Per Share

The following table reconciles the numerators and denominators used to calculate basic and diluted earnings per share:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2005	2004	2005	2004
Income Available to Common Shareholders				
Net income	$ 254.7	$ 222.3	$ 625.6	$ 544.5
Preferred stock dividends, net of tax benefit				(1.8)
Basic income available to common shareholders	$ 254.7	$ 222.3	$ 625.6	$ 542.7
Net income	$ 254.7	$ 222.3	$ 625.6	$ 544.5
Effect of dilutive securities:				
Compensation expense, net of tax benefit, arising from assumed conversion of preferred stock				(0.1)
Diluted income available to common shareholders	$ 254.7	$ 222.3	$ 625.6	$ 544.4
Weighted Average Shares Outstanding				
Basic weighted average shares outstanding	192.2	190.2	191.5	186.9
Effect of dilutive securities:				
Stock options	2.2	2.7	2.6	3.1
Convertible preferred stock				2.5
Diluted weighted average shares outstanding	194.4	192.9	194.1	192.5
Antidilutive Securities				
Options to purchase common shares	0.8	0.4	0.6	0.4

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(unaudited)

8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three month period ended September 30, 2004 and the nine month period ended June 30, 2005 were as follows:

(in millions)	Controls Group	Seating and Interiors - North America	Seating and Interiors - Europe	Seating and Interiors - Asia	Battery Group	Total
Balance as of June 30, 2004	$ 421.7	$ 1,176.1	$ 1,012.4	$ 218.8	$ 306.8	$ 3,135.8
Goodwill from business acquisitions					458.0	458.0
Currency translation	14.5	0.6	14.9	(2.1)	0.4	28.3
Other	(1.9)		(2.6)	(31.4)	(20.0)	(55.9)
Balance as of September 30, 2004	434.3	1,176.7	1,024.7	185.3	745.2	3,566.2
Goodwill from business acquisitions	86.9	7.9				94.8
Currency translation	5.4	0.6	(12.6)	10.2	(2.8)	0.8
Other	(0.6)	(0.2)		2.7	6.2	8.1
Balance as of June 30, 2005	$ 526.0	$ 1,185.0	$ 1,012.1	$ 198.2	$ 748.6	$ 3,669.9

The Company s other intangible assets, primarily from business acquisitions, are valued based on independent appraisals and consisted of:

	June 30, 2005			September 30, 2004			June 30, 2004		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets									
Patented technology	$ 229.5	$ (97.1)	$ 132.4	$ 232.1	$ (85.8)	$ 146.3	$ 234.5	$ (81.5)	$ 153.0
Unpatented technology	31.5	(6.3)	25.2	31.7	(4.9)	26.8	19.9	(3.5)	16.4
Customer relationships	75.9	(6.9)	69.0	76.3	(4.8)	71.5	70.6	(4.9)	65.7
Miscellaneous	9.9	(7.9)	2.0	10.5	(7.3)	3.2	10.4	(7.2)	3.2
Total amortized intangible assets	346.8	(118.2)	228.6	350.6	(102.8)	247.8	335.4	(97.1)	238.3
Unamortized intangible assets									
Trademarks	39.6		39.6	37.1		37.1	12.4		12.4

Pension asset	5.9		5.9	6.0		6.0	8.8		8.8
Total unamortized intangible assets	45.5		45.5	43.1		43.1	21.2		21.2
Total intangible assets	$ 392.3	$ (118.2)	$ 274.1	$ 393.7	$ (102.8)	$ 290.9	$ 356.6	$ (97.1)	$ 259.5

Amortization of other intangible assets for the nine month periods ended June 30, 2005 and 2004 was $17 million and $14 million, respectively. Excluding the impact of any future acquisitions, the Company anticipates annual amortization of other intangible assets will average $21 million per year over the next five years.

9. Guarantees

The Company has guaranteed the residual value related to the Company aircraft accounted for as synthetic leases. The guarantees extend through the lease maturity dates of September 2006. In the event the Company exercised its option not to purchase the aircraft for the remaining obligations at the scheduled maturity of the leases, the Company has guaranteed the majority of the residual values, not to exceed $53 million in aggregate. The Company has recorded a liability of approximately $2

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(unaudited)

million within Other noncurrent liabilities and a corresponding amount within Other noncurrent assets in the Consolidated Statement of Financial Position relating to the Company s obligation under the guarantees. These amounts are being amortized over the lives of the guarantees.

10. Comprehensive Income

A summary of comprehensive income is shown below:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2005	2004	2005	2004
Net income	$ 254.7	$ 222.3	$ 625.6	$ 544.5
Realized and unrealized gains (losses) on derivatives	7.7	(0.5)	3.4	2.6
Foreign currency translation adjustments	(151.7)	(61.2)	(43.8)	121.8
Other comprehensive (loss) income	(144.0)	(61.7)	(40.4)	124.4
Comprehensive income	$ 110.7	$ 160.6	$ 585.2	$ 668.9

The unfavorable foreign currency translation adjustments (CTA) for the three months ended June 30, 2005 compared to the prior period was primarily due to the approximate 7% decrease in the euro compared to a 2% decrease in the euro for the same three month period a year ago. CTA for the nine months ended June 30, 2005 was unfavorable compared to the prior period primarily due to the approximate 1% decrease in the euro in the current period compared to an approximate 6% increase in the euro for the nine month period a year ago.

The Company has foreign currency-denominated debt obligations and cross-currency interest rate swaps which are designated as hedges of net investments in foreign subsidiaries. Gains and losses, net of tax, attributable to these hedges are deferred as CTA within the Accumulated other comprehensive income account. A net gain of approximately $29 million and $13 million was recorded for the three month periods ending June 30, 2005 and 2004, respectively. Net losses of approximately $1 million and $31 million were recorded for the nine month periods ending June 30, 2005 and 2004, respectively.

11. Segment Information

In the current quarter, the Company has revised its segment disclosure from two reportable segments to five reportable segments and has revised the prior periods to conform to the current period presentation. Due to this segment revision, the Company has also revised the previously reported amounts in Note 8 Goodwill and Other Intangible Assets to conform to the new segment presentation.

The Company operates in three primary businesses, the Controls Group, the Seating & Interiors Group, and the Battery Group. The Controls Group provides facility systems and services including comfort, energy and security management for the non-residential buildings market. The Seating & Interiors Group designs and

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manufactures interior systems and products for passenger cars and light trucks, including vans, pick-up trucks and sport utility vehicles. The Battery Group designs and manufactures automotive batteries for the replacement and original equipment markets.

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131) establishes the standards for reporting information about operating segments in financial statements. In applying the criteria set forth in SFAS 131, the Company has determined that it operates in six operating segments, two within the Battery Group are aggregated under the accounting standard to arrive at the Company s five reportable segments for financial reporting purposes.

Management s evaluation of the performance of the Company s reportable segments excludes discontinued operations, significant restructuring costs and other significant non-recurring gains or losses. Financial information relating to the Company s reportable segments were as follows:

		Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)		2005	2004	2005	2004
Net Sales					
Controls Group		$ 1,406.6	$ 1,320.8	$ 4,216.4	$ 3,892.7
Seating & Interiors	North America	2,203.3	2,118.8	6,397.8	6,244.5
Seating & Interiors	Europe	2,425.4	2,026.4	6,859.1	5,803.1
Seating & Interiors	Asia	361.6	275.4	1,041.0	790.2
Battery Group		665.2	534.6	2,065.0	1,640.1
Total		$ 7,062.1	$ 6,276.0	$ 20,579.3	$ 18,370.6
Operating Income					
Controls Group (1)		$ 93.0	$ 67.5	$ 179.2	$ 159.0
Seating & Interiors	North America (2)	115.3	154.0	242.3	370.7
Seating & Interiors	Europe (3)	80.8	32.7	165.0	46.3
Seating & Interiors	Asia (4)	3.3	8.4	18.7	19.2
Battery Group (5)		75.7	56.7	235.1	173.2
Total		368.1	319.3	840.3	768.4
Restructuring costs				(210.0)	(82.4)
Japanese pension gain					84.4
Consolidated Operating Income		$ 368.1	$ 319.3	$ 630.3	$ 770.4

(1) Controls Group operating income excludes $51.3 and $13.3 million of restructuring costs for the

nine months ended June 30, 2005 and 2004, respectively.

(2) Seating & Interiors North America operating income excludes $11.9 and $5.1 million of restructuring costs for the nine months ended June 30, 2005 and 2004, respectively.

(3) Seating & Interiors Europe operating income excludes $129.6 and $51.1 million of restructuring costs for the nine months ended June 30, 2005 and 2004, respectively.

(4) Seating & Interiors Asia operating income excludes $0.4 million of restructuring costs for the nine months ended June 30, 2005 and a pension gain of $84.4 million for the nine months ended June 30, 2004.

(5) Battery Group operating

income excludes $16.8 and $12.9 million of restructuring costs for the nine months ended June 30, 2005 and 2004, respectively.

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12. Income Taxes

The Company s estimated annualized base effective income tax rate for continuing operations for the three months ended June 30, 2005, declined to 26.5% from 27.1% for the prior year period primarily due to continuing global tax planning initiatives. The Company s base effective tax rate for the nine month period ended June 30, 2005 benefited from an $11.5 and $69 million tax benefit in the first and second quarters, respectively, due to a change in tax status of a French and a German subsidiary. The change in tax status resulted from a voluntary tax election that produced a deemed liquidation of the French and German subsidiaries for US federal income tax purposes. The US shareholder received a tax benefit for the loss from the decrease in value from the original tax basis of these investments. This election changed the tax status of the German and French entities from controlled foreign corporations (i.e. taxable entities) to branches (i.e. flow through entities similar to a partnership) for US federal income tax purposes and is thereby reported as a discrete period tax benefit in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes . These benefits were partially offset by an increase in the tax valuation allowance of $28 million related to second quarter restructuring charges for which no tax benefits were recorded in certain countries (primarily Germany and the United Kingdom) given the uncertainty of its realization due to restrictive tax loss rules or a lack of sustained profitability in that country. The prior year nine month period ended June 30, 2004 benefited from a $17 million favorable tax settlement related to prior periods.

The estimated annualized effective tax rate for income from discontinued operations was 39% and 35.4% for World Services and the engine electronics business, respectively. These effective tax rates approximate the local statutory rate adjusted for permanent differences. The Company s income taxes for the gain on the sale of discontinued operations resulted in an effective tax rate of 38.1%.

The Company s Federal income tax returns and certain foreign income tax returns for fiscal years 1997-2003 are currently under various stages of audit by the Internal Revenue Service (IRS) and respective foreign tax authorities. Although the outcome of tax audits is always uncertain, management believes that its annual tax provisions included amounts sufficient to pay assessments, if any, which may be proposed by the taxing authorities. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the IRS may differ materially from the amounts accrued for each year.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (Act). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign operations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. As such, the Company is not yet in a

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position to decide on whether, and to what extent, the Company might repatriate foreign earnings that have not yet been remitted to the U.S. The Act allows the Company to repatriate an amount up to $560 million, which represents the cumulative undistributed earnings of foreign subsidiaries subject to the Act. The respective tax liability if the $560 million was repatriated would be approximately $30 million. The Company expects to be in a position to finalize its assessment by December 2005.

13. Restructuring Costs

In the second quarter of fiscal year 2005, the Company executed a restructuring plan (2005 Plan) involving cost reduction actions and recorded a $210 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These restructuring charges include workforce reductions of approximately 3,100 within Seating & Interiors and the Battery Group and 800 employees in the Controls Group. The charges associated with employee severance and termination benefits are paid over the severance period granted to each employee and on a lump sum basis when required in accordance with individual severance agreements. As of June 30, 2005, approximately 150 employees within Seating & Interiors and the Battery Group and 400 employees in the Controls Group have been separated from the Company. In addition, the 2005 Plan includes eight plant closures within the Seating & Interiors and the Battery Group and four plant closures within the Controls Group. The write downs of the long-lived assets associated with the plant closures were determined using a discounted cash flow analysis. The Seating & Interiors and the Battery Group actions are primarily concentrated in Europe, while the Controls Group restructuring actions involve activities in both North America and Europe. The Company expects to incur other related and ancillary costs associated with some of these restructuring initiatives. These costs are not expected to be material and will be expensed as incurred. The majority of the restructuring activities are expected to be completed by the end of the second quarter of fiscal year 2006.

The Company recorded the restructuring charge as a result of management s ongoing review of the Company s cost structure, the sharp increase in commodity costs, and the current economic difficulties facing some of our most significant customers. Company management is continually analyzing our businesses for opportunities to consolidate current operations and to locate our facilities in low cost countries in close proximity to our customers. This ongoing analysis includes the review of our manufacturing, engineering and purchasing operations as well as our overall company footprint. As a result of the 2005 Plan, the Company anticipates annual savings of approximately $135 million beginning in fiscal year 2006.

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The following table summarizes the Company s 2005 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

(in millions)	Original Reserve	Utilized Cash	Utilized Noncash	Balance at June 30, 2005
Employee severance and termination benefits	$ 139.3	($ 20.5)		$ 118.8
Write down of long-lived assets (1)	45.8		($ 45.8)	
Other	24.9	(9.0)	(0.2)	15.7
Currency translation			(9.3)	(9.3)
	$ 210.0	($ 29.5)	($ 55.3)	$ 125.2

(1) Write down of long-lived assets includes $36.6 million related to Seating & Interiors Europe, $7.1 million related to the Battery Group, and $2.1 million related to the Controls Group.

Included within Other are exit costs related to terminating supply contracts associated with changes in the Company s manufacturing footprint and strategies, lease termination costs and other direct costs of the restructuring plan.

In the second quarter of fiscal year 2004, the Company executed a restructuring plan (2004 Plan) involving cost structure improvement actions and recorded an $82.4 million restructuring charge included in Restructuring costs in the Consolidated Statement of Income. These charges primarily related to workforce reductions of approximately 1,500 employees within Seating & Interiors and the Battery Group and 470 employees in the Controls Group. In addition, the 2004 Plan called for four plants within Seating & Interiors to be consolidated. Through June 30, 2005, approximately 1,375 employees within Seating & Interiors and the Battery Group and all employees from the Controls Group have been separated from the Company. A significant portion of the Seating & Interiors and the Battery Group actions were concentrated in Europe. The Controls Group restructuring actions involved activities in both North America and Europe. The remaining restructuring activities are expected to be completed in the fourth quarter of fiscal year 2005.

The following table summarizes the Company s 2004 Plan reserve, included within Other current liabilities in the Consolidated Statement of Financial Position:

Balance at	Utilized	Balance at June 30,

(in millions)	September 30, 2004	Cash	Noncash	2005
Employee severance and termination benefits	$ 41.8	($ 21.5)		$ 20.3
Currency translation	(0.4)		($ 0.1)	(0.5)
	$ 41.4	($ 21.5)	($ 0.1)	$ 19.8

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14. Retirement Plans

The components of the Company s net periodic benefit costs associated with its defined benefit pension plans and other postretirement health and other benefits are as follows:

	Pension							
	U.S. Plans Three Months Ended June 30,		Non-U.S. Plans Three Months Ended June 30,		U.S. Plans Nine Months Ended June 30,		Non-U.S. Plans Nine Months Ended June 30,	
(in millions)	2005	2004	2005	2004	2005	2004	2005	2004
Service cost	$ 16.0	$ 14.3	$ 7.4	$ 6.9	$ 48.2	$ 42.9	$ 21.8	$ 20.6
Interest cost	22.2	20.5	10.0	10.0	66.8	61.5	29.6	29.7
Employee contributions			(0.7)	(1.1)			(2.3)	(3.2)
Expected return on plan assets	(26.1)	(26.0)	(7.6)	(6.6)	(78.1)	(78.0)	(22.6)	(19.7)
Amortization of transitional (obligation) asset	(0.5)	(0.7)	0.1		(1.5)	(2.1)	0.1	
Amortization of net actuarial loss	4.8	2.6	1.6	0.9	14.6	7.8	5.0	2.6
Amortization of prior service cost	0.3	0.3	(0.2)		0.9	0.9	(0.4)	
Recognition of unrealized loss associated with the transfer of the Japanese pension obligation								13.9
Net periodic benefit cost	$ 16.7	$ 11.0	$ 10.6	$ 10.1	$ 50.9	$ 33.0	$ 31.2	$ 43.9

	Postretirement Health and Other Benefits			
	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2005	2004	2005	2004
Service cost	$ 1.4	$ 1.3	$ 4.2	$ 3.9
Interest cost	2.5	2.8	7.6	8.4
Amortization of net actuarial loss	0.2	0.3	0.6	0.9
Amortization of prior service cost	(0.6)	(0.6)	(1.8)	(1.8)
Net periodic benefit cost	$ 3.5	$ 3.8	$ 10.6	$ 11.4

15. Deconsolidation of a Joint Venture (Restated)

On April 1, 2005, the Company deconsolidated a North American Seating & Interiors joint venture as it was determined the Company no longer had effective control over the venture s operating activities. Subsequent to April 1, 2005, the Company determined that based on SFAS 94, Consolidation of All Majority-Owned Subsidiaries, the joint venture should not have been consolidated in prior periods. As such, the Company s financial statements have been restated to account for the joint venture on an equity basis in accordance with APB 18, The Equity Method of Accounting for Investments in Common Stock for all periods prior to April 1, 2005. Due to this deconsolidation, the Company has also revised the previously reported amounts in Note 2 Inventories, Note 5 Research and development, Note 8 Goodwill and other intangible assets, Note 11 Segment information and Note 12 Income taxes.

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The deconsolidation of this joint venture had no impact on income from continuing operations, net income or earnings per share in the respective periods and its impact on the consolidated statement of cash flows was not significant. Revenues and expenses previously recorded in certain consolidated financial statement line items are now reported on a net basis as Equity income in the Consolidated Statement of Income and the Company s net investment in the joint venture is reported in the Investments in partially-owned affiliates line in the Consolidated Statement of Financial Position. The following table summarizes the impact of this restatement on key financial statement line items (the impact on other individual financial statement line items is not material):

	Three Months Ended June 30, 2004		Nine Months Ended June 30, 2005		Nine Months Ended June 30, 2004	
(In millions)	**As Reported**	**Restated**	**As Reported**	**Restated**	**As Reported**	**Restated**
Consolidated Statement of Income						
Net sales	6,475.6	6,276.0	20,983.1	20,579.3	18,924.4	18,370.6
Operating income	343.1	319.3	666.3	630.3	835.2	770.4
Equity income	18.4	25.8	47.8	59.2	52.5	71.9
Minority interests in net earnings of subsidiaries	19.3	11.6	40.5	28.2	53.5	33.4
Consolidated Statement of Financial Position						
Investments in partially-owned affiliates	429.0	562.1				
Minority interests in equity of subsidiaries	248.6	109.4				

16. Guarantor Financial Statements (Restated)

Subsequent to September 30, 2005, the Company identified intercompany subsidiary upstream guarantees, issued March 21, 2001, applicable to certain third-party debt of the Company. Based upon the nature of these guarantees, the Company has determined that condensed guarantor subsidiary financial statement information should have been disclosed in its previously filed interim and annual financial statements since the issuance of the guarantees. As a result, the Company has restated its fiscal 2005 and fiscal 2004 consolidated financial statements to include these required disclosures.

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Certain of the Company s wholly-owned subsidiaries (the Guarantors) had unconditionally guaranteed (the guarantees), on a joint and several basis, any and all liabilities of Johnson Controls, Inc. (the Parent) for money borrowed, when due, whether at stated maturity, by acceleration, or otherwise. The guarantees did not have a stated maturity; however, the guarantees were rescinded in November 2005 and replaced with alternative intercompany arrangements. The guarantees covered the majority of the Parent s short-term and long-term debt, as follows:

(In millions)	June 30, 2005	September 30, 2004	June 30, 2004
Short-term debt	$ 392.7	$ 813.3	$ 418.8
Less bank borrowings not subject to guarantees	(98.7)	(96.3)	(80.8)
Total short-term debt of Parent subject to guarantees	$ 294.0	$ 717.0	$ 338.0
Long-term debt	$ 1,853.0	$ 1,857.3	$ 1,856.4
Less debt not subject to guarantees:			
Industrial revenue bonds		(9.7)	(9.5)
Capital lease obligations	(92.8)	(89.0)	(88.0)
Euro denominated debt	(99.6)	(142.2)	(135.5)
Yen denominated debt	(0.9)		(0.9)
Other long-term debt	(88.7)	(39.9)	(46.3)
Total debt subject to guarantees	1,571.0	1,576.5	1,576.2
Less current portion of Parent subject to guarantees	(200.0)	(200.0)	
Total long-term debt of Parent subject to guarantees	$ 1,371.0	$ 1,376.5	$ 1,576.2

The Guarantors included Hoover Universal, Inc., Johnson Controls Battery Group, Inc., JC Interiors, LLC and Johnson Controls Beteiligungs GmbH. Pursuant to Rule 3-10 of Regulation S-X, in lieu of providing separate audited financial statements for each of the Guarantors, or the Guarantors as a group, the Company has disclosed the condensed supplemental consolidating financial information below.

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	June 30, 2005				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents (1)	($ 46.8)	($ 1,075.5)	$ 1,507.5	$	$ 385.2
Accounts receivable net	371.7	977.8	2,879.4		4,228.9
Costs and earnings in excess of billings on uncompleted contracts	130.8		169.7		300.5
Inventories	12.9	223.0	679.1		915.0
Other current assets	200.9	271.3	423.0		895.2
Current assets	669.5	396.6	5,658.7		6,724.8
Property, plant & equipment net	213.4	928.7	2,151.5		3,293.6
Goodwill net	73.9	1,116.9	2,479.1		3,669.9
Other intangible assets net	15.1	45.2	213.8		274.1
Investments in partially-owned affiliates	9.4	61.5	348.6		419.5
Investments in subsidiaries (2)	7,321.6	4,980.5	9,178.9	(21,481.0)	
Other noncurrent assets	253.9	129.0	396.5		779.4
Total assets	$ 8,556.8	$ 7,658.4	$ 20,427.1	($ 21,481.0)	$ 15,161.3
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt	$ 294.0	$	$ 98.7	$	$ 392.7
Current portion of long-term debt	200.0	1.3	19.6		220.9
Accounts payable	240.1	875.8	2,428.4		3,544.3
Accrued compensation and benefits	133.2	130.0	483.9		747.1
Accrued income taxes	(224.2)	(64.5)	316.0		27.3
Billings in excess of costs and earnings on uncompleted contracts	121.6		103.9		225.5
Other current liabilities	88.0	166.6	869.5		1,124.1
Current liabilities	852.7	1,109.2	4,320.0		6,281.9
Long-term debt	1,371.0	41.4	219.7		1,632.1
Postretirement health and other benefits	61.6	93.6	3.3		158.5
Minority interests in equity of subsidiaries			142.9		142.9
Other noncurrent liabilities	494.4	(118.1)	792.5		1,168.8
Shareholders equity	5,777.1	6,532.3	14,948.7	(21,481.0)	5,777.1
	$ 8,556.8	$ 7,658.4	$ 20,427.1	($ 21,481.0)	$ 15,161.3

Total liabilities and shareholders equity

(1) Negative cash balances at the Parent and Guarantors reflect the balance in a worldwide cash pooling arrangement

(2) Includes investments in subsidiaries and net intercompany balances.

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	September 30, 2004				
(In millions)	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents (1)	$ 375.9	($ 101.0)	($ 175.7)	$	$ 99.2
Accounts receivable net	345.6	738.1	2,732.2		3,815.9
Costs and earnings in excess of billings on uncompleted contracts	120.2		151.6		271.8
Inventories	9.0	249.4	599.9		858.3
Assets of discontinued operations			579.8		579.8
Other current assets	104.4	151.8	469.3		725.5
Current assets	955.1	1,038.3	4,357.1		6,350.5
Property, plant & equipment net	183.8	927.2	2,222.9		3,333.9
Goodwill net	158.2	1,079.6	2,328.4		3,566.2
Other intangible assets net	16.6	50.6	223.7		290.9
Investments in partially-owned affiliates	8.9	70.0	368.7		447.6
Investments in subsidiaries (2)	6,954.8	4,505.0	7,778.5	(19,238.3)	
Other noncurrent assets	198.3	84.1	486.9		769.3
Total assets	$ 8,475.7	$ 7,754.8	$ 17,766.2	($ 19,238.3)	$ 14,758.4
LIABILITIES AND SHAREHOLDERS EQUITY					
Short-term debt	$ 717.0	$	$ 96.3	$	$ 813.3
Current portion of long-term debt	200.0	10.8	15.9		226.7
Accounts payable	237.5	681.6	2,506.2		3,425.3
Accrued compensation and benefits	94.8	86.8	410.8		592.4
Accrued income taxes	(139.5)	(66.3)	254.4		48.6
Billings in excess of costs and earnings on uncompleted contracts	106.9		90.3		197.2
Liabilities of discontinued operations			228.5		228.5
Other current liabilities	102.5	177.7	608.6		888.8
Current liabilities	1,319.2	890.6	4,211.0		6,420.8
Long-term debt	1,376.5	26.8	227.3		1,630.6
Postretirement health and other benefits	81.0	78.4	4.7		164.1
Minority interests in equity of subsidiaries			121.5		121.5
Other noncurrent liabilities	492.7	(116.0)	838.4		1,215.1

Shareholders equity	5,206.3	6,875.0	12,363.3	(19,238.3)	5,206.3
Total liabilities and shareholders equity	$ 8,475.7	$ 7,754.8	$ 17,766.2	($ 19,238.3)	$ 14,758.4

(1) Negative cash balances at the Guarantors and Non-Guarantors reflect the balance in a worldwide cash pooling arrangement.

(2) Includes investments in subsidiaries and net intercompany balances.

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	June 30, 2004				
(In millions)	Parent	Non-Guarantors	Guarantors	Eliminations	Consolidated